

Hollinger Argus Limited
Hollinger Argus Limitée

Annual Report
1981

AR14





“THE POACHER”, 1915

by
Tom Thomson, 1877-1917

A powerful image by one of
Canada’s greatest artists.

**Annual Report
1981**

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Annual Meeting

Wednesday, May 12, 1982,
11:00 a.m. (Eastern Daylight
Time), York Room, Royal
York Hotel, 100 Front Street
West, Toronto.

Highlights	1981	1980
Net income (before extraordinary loss)	\$21,404,000	\$30,411,000
Net income (after extraordinary loss)	\$ 8,695,000	\$30,411,000
Earnings/share (before extraordinary loss)	\$3.64	\$5.19
Earnings/share (after extraordinary loss)	\$1.48	\$5.19
Regular dividends paid per share	\$2.20	\$2.20
Cash and Short-Term deposits	\$25,079,000	\$30,351,000
Shares held in Canada	98.33%	94.35%

Directors

Douglas G. Bassett
Toronto

Edward G. Battle
Toronto

***Conrad M. Black**
Toronto

***G. Montegu Black**
Toronto

Thomas G. Bolton
Toronto

***Edmund C. Bovey**
Toronto

***Dixon S. Chant**
Toronto

***Charles G. Cowan**
Toronto

****Glen W. Davis**
Toronto

****David M. Dunlap**
Toronto

***Fredrik S. Eaton**
Toronto

****John R. Finlay**
Toronto

***P. C. Finlay**
Toronto

H. N. R. Jackman
Toronto

H. T. McCurdy
Toronto

D. A. McIntosh
Toronto

F. David Radler
Vancouver

Ronald T. Riley
Montreal

***C. B. Ross**
Toronto

Trumbull Warren
Hamilton

****Peter G. White**
London

Officers

P. C. Finlay
Chairman

Conrad M. Black
Vice-Chairman of the Board
and Chief Executive Officer

G. Montegu Black
President

C. B. Ross
Executive Vice-President

Dixon S. Chant
Executive Vice-President

Charles G. Cowan
Secretary

W. F. White
Treasurer

Allen A. McMartin
Honorary Director

Head office

Suite 601, P.O. Box 221
Commerce Court East,
Toronto, Ontario M5L 1E8

Transfer Agents

Crown Trust Company
Toronto and Montreal

Morgan Guaranty Trust
Company of New York
New York

Registrars

Canada Permanent Trust
Company, Toronto

Montreal Trust Company
Montreal

The Royal Bank
and Trust Company
New York

Bankers

Bank of Montreal
Toronto

General Counsel and Solicitors

Holden, Murdoch & Finlay
Toronto

Auditors

Deloitte Haskins & Sells
Toronto

* Member of the Executive Committee
** Member of the Audit Committee



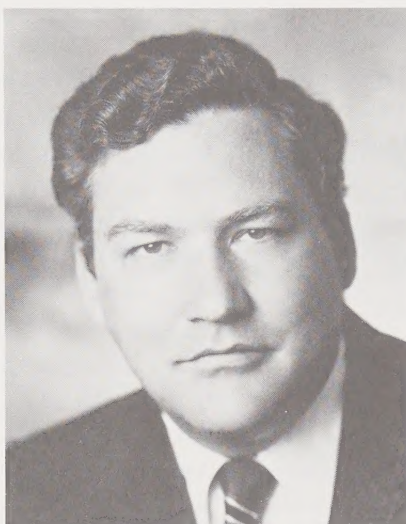
P. C. Finlay

Chairman and
Member of the
Executive Committee



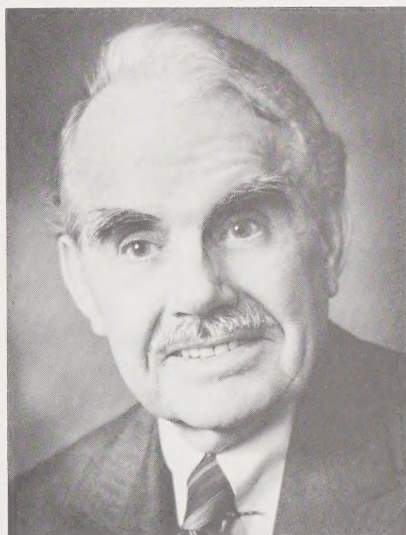
G. Montegu Black

President and
Member of the
Executive Committee



Conrad M. Black

Vice-Chairman and
Chief Executive Officer and
Chairman of the
Executive Committee



Dixon S. Chant

Executive Vice-President
and Member of the
Executive Committee



C. B. Ross

Executive Vice-President
and Member of the
Executive Committee

Directors' Report to the Shareholders:

Submitted herewith is the Annual Report of the Directors of Hollinger Argus Limited for the year ended December 31, 1981, being the company's 71st year of operation. Hollinger Argus financial statements are consolidated with those of its subsidiaries, Labrador Mining and Exploration Company Limited and Hollinger North Shore Exploration Inc., and with Argus Corporation Limited to August 18, 1981. The consolidated net income of Hollinger Argus Limited in 1981, excluding extraordinary loss of \$12,709,000, was \$21,404,000, equal to \$3.64 per share. Earnings per share in 1981 after extraordinary loss were equal to \$1.48 per share, compared with a net income in 1980 of \$30,411,000, equal to \$5.19 a share.

Revenue from royalties on iron ore in 1981 amounted to \$45,665,000, as compared to \$42,493,000 in 1980. Interest received in 1981 amounted to \$35,071,000 as compared to \$25,399,000 in 1980. Dividends in 1981 amounted to \$15,287,000, as compared to \$16,594,000 in 1980. Other revenue in 1981 amounted to \$687,000, as compared to \$2,439,000 in 1980. Expense in 1981 amounted to \$65,699,000 including \$59,688,000 interest expense, net of amount capitalized, compared to \$43,263,000 in 1980.

Income taxes of \$396,000 current and \$1,317,000 deferred in 1981 were \$6,579,000 less than for 1980. Newfoundland royalty taxes were \$8,873,000 in 1981 as compared to \$7,500,000 in 1980.

Net earnings in 1981 included Labrador Mining's share of equity earnings in Norcen Energy Resources Limited amounting to \$7,104,000 as compared to \$14,110,000 in 1980.

Iron Ore Company of Canada:

Iron Ore Company of Canada earnings in 1981 amounted to \$104,833,983 (U.S. funds).

Iron Ore Company paid dividends in the year of \$9.00 U.S. per share in 1981. Hollinger Argus received \$6,589,971.00 U.S., the Canadian equivalent being \$7,906,940.09. Iron Ore Company paid a further dividend of \$5.00 U.S. per share in January, 1982.

Investments

The significant investments of Hollinger Argus at December 31, 1981, were as follows:

Company	Shares	% Interest
Hollinger-Hanna Limited	500	50
Hollinger North Shore	1,455,825	60
Iron Ore Company	732,219	7.146
Labrador Mining	2,677,677	66.94

The significant investments of Labrador Mining at December 31, 1981, were as follows:

Company	Shares	% Interest
Iron Ore Company	340,565	3.32
Norcen Energy Resources Limited	9,643,250	36.2
Brascan Limited indebtedness	\$168,785,530	

Share Information

The common stock of Hollinger Argus Limited was traded on the Toronto, Montreal and American Stock Exchanges during the year 1981. The common stock of Hollinger Argus Limited is not now listed on the American Stock Exchange.

Quarter	Sale price per share				Dividends per share	
	1981		1980		1981	1980
	High	Low	High	Low		
1	\$49.00	\$47.25	\$47.66	\$43.50	\$.55	\$.55
2	49.08	45.96	41.33	37.66	.55	.55
3	41.66	34.25	61.16	52.33	.55	.55
4	31.00	29.92	54.58	46.83	.55	.55

During 1980, 19,550 shares valued at \$905,538 were issued as stock dividends. During 1981, 17,967 shares valued at \$845,000 were issued as stock dividends. Shareholders who received stock dividends did not receive cash dividends except in lieu of fractional shares.

Hollinger Argus received \$3,661,095.00 U.S., the Canadian equivalent being \$4,371,347.43.

A new three-year Union agreement was entered into as of the 1st March, 1982. We are pleased that Management and the Union were able to come to a mutually satisfactory agreement.

The pellet plant of Iron Ore Company at Carol Lake (Labrador City) will be closed for five weeks this coming summer, with the result that the Carol pellet production will be reduced 1,200,000 tonnes from last year to 9,500,000 tonnes.

The steel industry's major markets, namely, automotive, appliance and construction, are suffering because of high interest rates, motor car and steel imports. Pellet purchases will be kept to a minimum by the steel companies and it is hoped that the Iron Ore Company will not have to reduce further its scheduled pellet production referred to above. Accordingly, it is difficult to estimate Iron Ore Company's earnings for 1982 but it is evident that they will be substantially less than in 1981.

Oil and Gas Exploration

No additional lands were acquired during 1981 by the joint venture managed by Sulpetro Limited (formerly CanDel Oil) in which Hollinger Argus and Labrador Mining have a 75% interest, shared equally. The joint venture continues to hold 100,772 gross acres (68,346 net acres). Seven exploratory wells were drilled, resulting in 1 gas well and 1 oil well.

Dividends

Cash dividends were paid quarterly during the year 1981 at the rate of 55¢ per share, totalling in all, \$12,876,310.

Also, during the year, 17,967 shares, valued at \$844,906, were issued as stock dividends.

On the 19th day of August, 1981, a Special Dividend was paid by transferring to the holders of the outstanding common shares of the Corporation, Argus Common Shares and Argus Class C Shares owned by the

Corporation on the basis of .2775 Argus Common Shares and .8352 Argus Class C Shares for each common share of the Corporation (except as mentioned below). Any fractional interests in Argus Common Shares and Argus Class C Shares were paid in cash. The Special Dividend was paid in cash to all holders of common shares of the Corporation who were residents in the United States of America or its territories or possessions. You will note from the Consolidated Statement of earnings that there was a loss on disposal of the above Argus Common Shares and Argus Class C Shares of \$12,709,000 which reduced the earnings of the Corporation for the year 1981 by \$2.16 per share.

We wrote two letters on August 19th, one to the Shareholders other than those resident in the United States of America or the territories or possessions thereof, the other to the shareholders resident in the United States of America and the territories and possessions thereof, setting out full particulars of the Special Dividend as it

Shareholders of Record
as at December 31, 1972 and 1981

Residence	Shareholders		Percentage		Shares Held		Percentage	
	1972	1981	1972	1981	1972	1981	1972	1981
Canada	4,097	1,231	79.37	66.43	4,316,333	5,785,295	87.73	98.33
United States	939	539	18.19	29.09	204,170	76,150	4.15	1.29
United Kingdom	49	29	0.95	1.57	29,776	4,265	0.61	0.08
Other	77	54	1.49	2.91	369,721	17,557	7.51	0.30
Total:	5,162	1,853	100.00	100.00	4,920,000	5,883,267	100.00	100.00

pertains to the addressees in each instance, as set out above. Also, on February 26, 1982, we wrote a further letter to those Canadian residents who received the Special Dividend commenting in considerable detail on the valuation of the Argus Common Shares and the Argus Class C Shares on or about the 19th August, 1981. The Shareholders in the United States of America or the territories or possessions thereof received cash so no valuation comments were necessary. The Special Dividend is taxable in the hands of the recipients as income.

Dominion Stores Limited

The tender offer by Dominion Stores Limited for the common shares of Hollinger Argus Limited was for \$14.00 cash plus one and one-quarter common shares of Dominion for each common share of Hollinger Argus. The offer

resulted in Dominion Stores acquiring 93% of the issued shares of your Corporation. We will not comment further on this offer as full details were furnished you in the tender offer of Dominion Stores dated August 21, 1981. It was also fully reported in an interim report of this Corporation dated August 26, 1981, and in the Directors' Circular issued by this Corporation on August 28, 1981.

General Comments

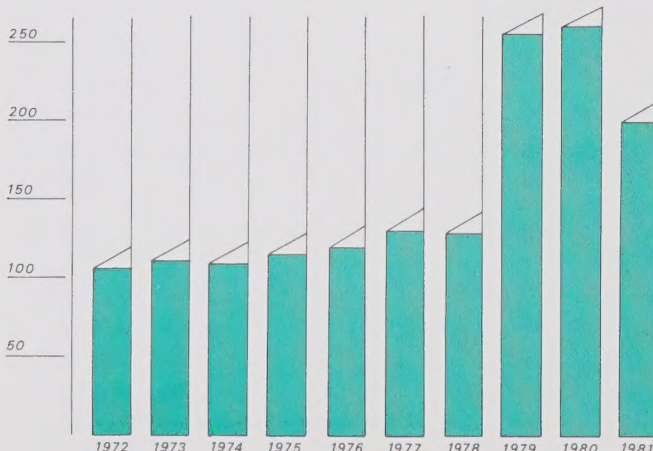
In last year's Annual Report we commented on the conflict between Federal energy policies, Alberta energy policies, so-called Canadianization and the never-ending debates on the Constitution.

Despite a so-called energy agreement between the Federal and Alberta Governments, it is highly probable that there will be many changes. The agreement was so loaded against the Oil and Gas Industry that none of the hopes and desires of the Governments, the Oil and

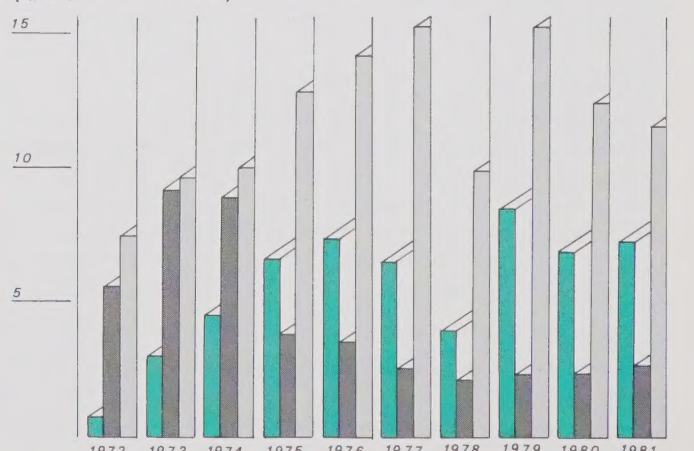
Gas Industry and the Canadian Public to bring about oil sufficiency can possibly be accomplished. Concessions will have to be made to the Oil and Gas Industry by the Federal Government and the Alberta Government or few of the anticipated developments will go ahead.

The way the Governments are trying to accomplish Canadianization which is, in a measure, Nationalization, is not only going to be, but has been, very harmful to our economy. The Federal Government, and some of our Provinces have been steadily proceeding with Nationalization through Crown Corporations and with acquisitions from the private sector all of which will end up with more and more socialism. These steps will all be very harmful to Canada and will reduce private ownership which has been, and we are of the opinion will be, the cornerstone for economic prosperity in the future.

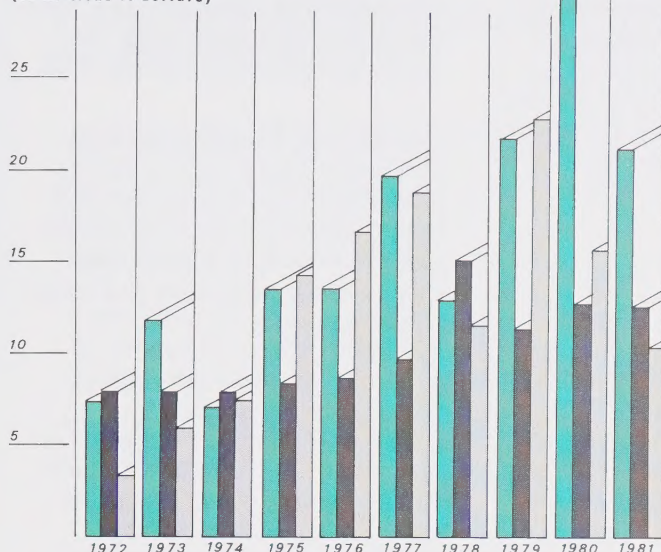
Shareholders' Equity
(in millions of dollars)



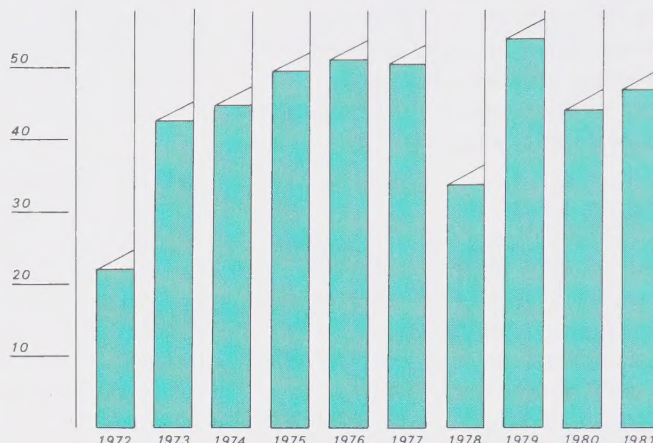
Product Sales from Subsidiaries' Lands
(in millions of tonnes)



■ Net Income ■ Dividends ■ Taxes
(in millions of dollars)



Crude Ore Mined from
Subsidiaries' Lands
(in millions of long tons)



The Constitutional arguments of the past have left bitterness throughout our country. Separatism is rearing its ugly head, not only in the East but also in the West.

Uncompromising relations between governments can only lead to disaster not only nationally but internationally. Our FIRA and our Energy policies, administered in an uncompromising way, lead to problems with our best customer, the United States of America.

Surely it is time that we reversed some of these attitudes.

Appreciation

The Board of Directors wish to thank the management and staff for the excellent services they have given during the past year.

Chairman of the Board

Vice-Chairman of the Board
and Chief Executive Officer

April 5, 1982

Executive Vice-President's Report

To the Shareholders:

Iron ore production was slightly lower in 1981 than in 1980 but royalty income was higher. Gold mining royalties were much lower, reflecting a lower price for gold and reduced mining volumes. Mineral exploration resulted in outlining a small gold deposit.

Iron Ore

Iron Ore Company of Canada mined 46.8 million tonnes of crude ore from Labrador Mining Company's lands in the Labrador City and Schefferville districts, but none from Hollinger North Shore's lands at Schefferville. The plant at Sept-Iles which makes pellets from Schefferville ores was closed for an indefinite period on April 14 because of reduced demand for iron ore by the steel industry in the U.S.A.

Processing crude ore to produce pellets and concentrate results in a reduction of volume and weight. Total sales by source and product during 1981 were:

Source and Product:		
	Millions of tonnes	
	1981	1980
Labrador Mining:		
Direct shipping ore	2.5	2.0
Concentrate	7.1	7.0
Pellets (Labrador City)	10.7	9.1
Pellets (Sept-Iles)	0.7	2.6
Sub-Total	21.0	20.7
Hollinger North Shore:		
Direct shipping ore	—	0.1
Pellets (Sept-Iles)	0.2	0.7
Sub-Total	0.2	0.8
Total Sales	21.2	21.5

Royalties received from iron ore sales amounted to \$45.665 million in 1981 compared to \$42.493 million in 1980. The small reduction in sales volume was more than offset by increases in product selling prices in 1981 and the lower value of the Canadian dollar.

Gold Mining

Pamour Porcupine Mines Limited mined much less ore during 1981 from one of the two gold properties in the Timmins district from which Hollinger Argus receives royalty payments for the ore mined by Pamour.

Source of Ore:	Tons of Ore Mined	
	1981	1980
Hollinger Property	38,966	267,437
Ross Property	209,623	204,140
Totals	248,589	471,577

Royalty income amounted to \$609,561 for 1981, compared to \$2,060,473 for 1980. The gold price upon which the royalty is based fell from \$716.08 per ounce in 1980 to \$551.15 in 1981.

Pamour had been mining ore from small open pits on the Hollinger property but these were completed during the first half of the year. Pamour has completed rehabilitation of one shaft and a section of the underground workings on the Hollinger property and commenced mining ore

underground in December. It is expected that about 200,000 tons of ore will be mined from the Hollinger property during 1982.

Mineral Exploration

Hollinger Argus and two of its subsidiaries continued mineral exploration activities in Canada and the U.S.A. Expenditures during 1981 amounted to \$2.646 million, compared to \$2.151 million in 1980. A number of programs were joint ventures with other companies.

Hollinger Argus conducted all of its work in Northern Ontario. A small gold deposit has been outlined by drilling on a property about 30 miles east of Timmins. A study is underway to determine whether it would be feasible to develop the deposit for production at this time.

Labrador Mining carried out work in Newfoundland, Labrador, Quebec, Ontario, British Columbia and parts of the U.S.A. exploring primarily for base metals and gold. Interesting indications of gold mineralization were found on two properties on which drilling is planned during 1982.

Hollinger North Shore continued its programs in the Labrador Trough, north of Schefferville. During the past few years, several small copper-nickel deposits have been outlined by drilling. The program in 1981 was only moderately successful in extending one of the zones. It has now been decided to suspend this program indefinitely because the remoteness of the area would require a deposit much larger than those already discovered in order to be economic.

Respectfully submitted,

C. B. Ross,
Executive Vice-President

April 5, 1982

Consolidated Statement of Earnings

Year ended December 31, 1981

		1981	1980
		(thousands except per share data)	
Revenue:	Royalties on iron ore	\$ 45,665	\$ 42,493
	Interest	35,071	25,399
	Dividends	15,287	16,594
	Other	687	2,439
		96,710	86,925
Expense:	Exploration	2,646	2,151
	Interest	59,688	37,120
	Administrative	3,365	3,992
		65,699	43,263
Taxes	Income taxes		
	Current	396	507
	Deferred	1,317	7,785
	Newfoundland royalty taxes	8,873	7,500
		10,586	15,792
Earnings before equity earnings, minority interests and extraordinary loss		20,425	27,870
Equity earnings in Norcen Energy Resources Limited (Note 3)			
	Company's interest in Norcen's earnings	15,715	25,685
	Amortization of excess of cost of investment over underlying book value	(7,741)	(9,975)
	Adjustment of carrying value of investment as a result of Norcen issuing additional common shares	(870)	(1,600)
		7,104	14,110
Minority interests		(6,125)	(11,569)
Earnings before extraordinary loss		21,404	30,411
Extraordinary loss on disposition of Argus (Note 2)		12,709	—
Net earnings		\$ 8,695	\$ 30,411
Earnings per share			
	Earnings before extraordinary loss	\$ 3.64	\$ 5.19
	Net earnings	\$ 1.48	\$ 5.19

Consolidated Balance Sheet

December 31, 1981

Assets		1981	1980
		(thousands)	
Current Assets:	Cash and short-term deposits	\$ 25,079	\$ 30,351
	Accounts receivable and other assets	23,505	30,646
		48,584	60,997
Brascan indebtedness (Note 5)		168,786	168,786
Investments:	Securities	—	114,671
	Norcen Energy Resources Limited — at equity (Note 3)	390,094	381,708
	Other — at cost (Note 4)	37,776	36,804
		427,870	533,183
Oil and gas properties		18,959	16,901
Fixed assets — net		136	178
Mining rights and concessions — at cost		2,218	2,253
		\$ 666,553	\$ 782,298

Auditors' Report

To the Shareholders of
Hollinger Argus Limited:

We have examined the consolidated balance sheet of Hollinger Argus Limited as at December 31, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of the parent company was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the changes in the method of calculation of equity earnings of Norcen Energy Resources Limited as described in Note 3, on a basis consistent with that of the preceding year.

Toronto, Ontario
March 4, 1982

Deloitte Haskins & Sells
Chartered Accountants.

Liabilities		1981	1980
		(thousands)	
Current Liabilities:	Accounts payable and accrued charges	\$ 1,615	\$ 3,081
	Income taxes and Newfoundland royalty taxes payable	2,746	2,155
		4,361	5,236
Long-term debt (Note 6)		370,615	370,615
Minority interests		64,109	111,786
Deferred income taxes		31,296	35,606
		470,381	523,243
Shareholders' Equity:			
Share capital (Note 7)			
Authorized — 7,000,000 no par value common shares			
Issued and fully paid — 5,883,267 shares			
(1980 — 5,865,300 shares)			
		115,576	114,731
Contributed surplus		—	174
Unrealized gain on securities carried at quoted market price		—	9,307
Retained earnings		80,596	134,843
		196,172	259,055
		\$ 666,553	\$ 782,298

Approved by the Board:

P. C FINLAY
Director

C. M. BLACK
Director

Consolidated Statement of Retained Earnings

Year ended December 31, 1981

	1981	1980
	(thousands)	
Retained earnings, beginning of year	\$ 134,843	\$ 146,276
Net earnings	8,695	30,411
Loss on disposal of security carried at quoted market price — less income tax recovery of \$7,369,000 and minority interest of \$7,170,000	—	(28,961)
	143,538	147,726
Dividends:		
Cash	12,877	11,977
Stock (Note 7)	845	906
Special (Note 2)	49,220	—
	62,942	12,883
Retained earnings, end of year	\$ 80,596	\$ 134,843

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1981

	1981	1980
	(thousands)	
Source of funds:		
Funds provided from operations — including in 1981, \$9,643,000 (1980 — \$8,681,000) of dividends from Norcen Energy Resources Limited	\$ 31,420	\$ 44,382
Income tax recovery on disposal of security carried at quoted market price	—	7,369
Increase in long-term debt	—	292,895
Other	(53)	(253)
	31,367	344,393
Application of funds:		
Purchase of investments	13,266	301,170
Expenditures on oil and gas properties	2,058	7,567
Cash dividends paid by Parent company	12,877	11,977
Subsidiaries to minority shareholders	4,513	5,759
Decrease in working capital arising on disposition of Argus Corporation Limited (Note 2)	10,191	—
	42,905	326,473
(Decrease) increase in working capital	(11,538)	17,920
Working capital, beginning of year	55,761	37,841
Working capital, end of year	\$ 44,223	\$ 55,761

Notes to the Consolidated Financial Statements

December 31, 1981

1. Significant Accounting Policies:**Principles of consolidation**

The financial statements consolidate the accounts of Hollinger Argus Limited and its direct subsidiaries.

	Percentage Interest
Argus Corporation Limited (Note 2)	
Labrador Mining and Exploration Company Limited	66.94%
Hollinger North Shore Exploration Inc.	60.00%

Investments

The investment in Norcen Energy Resources Limited has been accounted for by the equity method. The excess of the cost of the investment in Norcen over its underlying book value has been ascribed to oil and gas reserves and exploratory acreage. The amount ascribed to exploratory acreage together with interest capitalized thereon is being brought into the amortization calculation over six years which is the estimated period of development of such acreage. As set out in Note 3, commencing January 1, 1981 the excess of the cost of the investment over its underlying book value is amortized on the production revenue method based on total estimated future production revenues from estimated proven recoverable reserves. Prior thereto, this excess of cost was amortized on the unit of production method based on total estimated proven recoverable reserves.

The investment in the Iron Ore Company of Canada is carried at the value at which it was carried at December 31, 1977 when the equity method of accounting for this investment was discontinued.

Other investments reflected in the consolidated financial statements are accounted for by the cost method.

Oil and gas properties

Frontier oil and gas exploration costs are written off in the year incurred. If a property is determined to be economic, all subsequent costs are deferred and amortized against related production income. Non-frontier oil and gas exploration costs are capitalized on an area of interest basis and will be depleted using the production revenue method, based on total estimated recoverable reserves as and when discovered, or will be written off if exploration is unsuccessful.

Fixed assets

Property, plant and equipment are carried at cost. Depreciation is provided for at annual rates varying from 10% to 30% using the declining-balance method. Profit or loss on retirement or disposal is included in current operations.

Mining exploration costs

Mining exploration costs are written off in the year incurred. If a property is determined to be economic, all subsequent costs are deferred and amortized against production income.

Income taxes

Income taxes are provided for in the year transactions affect net income, regardless of when such transactions are recognized for tax purposes. Deferred income taxes are provided for on the portion of the recorded unrealized gain on investments which would be taxable if the gains were realized. Timing differences giving rise to deferred income taxes relate primarily to non-frontier oil and gas exploration costs which are capitalized on the balance sheet but deducted for income tax purposes.

Foreign currency translation

Transactions in foreign currencies are translated at the rates which prevailed at the dates of the transactions; foreign currency current assets and current liabilities are translated at the currency exchange rate prevailing at the end of the year and any gains or losses are taken into income.

Earnings per share

Earnings per common share have been calculated using the weighted average number of common shares outstanding during 1981 of 5,877,037 shares (1980 — 5,855,804 shares).

2. Special Dividend

On August 19, 1981, a special dividend, comprised of .277 Argus common shares and .835 Argus Class C preferred shares, with an assigned value of \$8.50 per share, was distributed to each shareholder. This dividend resulted in a significant reduction in the investment in Argus at a loss of \$12,709,000. The investment in Argus still held of 26,260 common shares and 75,760 Class C preferred shares is accounted for by the cost method and accordingly the results of operations of Argus since August 19, 1981 have not been included in the consolidated financial statements.

The carrying value as at August 18, 1981 of the net assets of Argus and the effect of the disposition of Argus are summarized as follows:

(thousands)

Investments	\$102,721
Working capital	10,191
	112,912
Deferred taxes and minority interest	49,612
	63,300
Cost of Argus shares retained	1,371
Net assets	61,929
Special dividend	49,220
Loss on disposition of Argus	\$ 12,709

3. Changes in Accounting Practices

Effective January 1, 1981, Norcen Energy Resources Limited decided that it is more appropriate to relate its charges for depletion to production revenues than to production quantities. Estimated future production revenues are based on proven reserves and on prices set by energy and pricing agreements limited to 75% of the 1981 world price for crude oil. As a result of this change in accounting practice, the equity in the earnings of Norcen is \$968,000 (\$.17 per share) greater than it would have been had Norcen based its charges for depletion on production quantities. Because of this change, effective January 1, 1981, the company amended its method of amortization of the excess of the cost of the investment over its underlying book value to the production revenue method from the unit of production method. The change resulted in the amortization of the excess of the cost of the investment over its underlying book value being \$1,866,287 (\$.31 per share) less than it would have been had it been based on production quantities. The cumulative effect of these changes was to increase the company's earnings for 1981 by \$2,834,000 (\$.48 per share).

4. Other Investments

Other investments comprise the following as at December 31, 1981:

	Percentage Interest	Carrying Value
		(thousands)
Iron Ore Company of Canada	10.47%	\$34,040
Other		3,736
		\$37,776

5. Brascan Indebtedness

The receivable from Brascan Limited bears interest at a rate which varies quarterly with the 90-day bank term deposit rate, is callable in whole or in part at any time with 90 days notice with the balance due October 15, 1989. On January 19, 1982 the company called \$52,000,000 due April 19, 1982.

6. Long-term Debt

The company has established with its bankers a line of credit aggregating \$390,100,000, expiring December 31, 1986. The company may obtain advances by borrowing in Canadian or United States dollars, by borrowing (with certain limitations) in Eurodollars and certain other Eurocurrencies by way of LIBOR advances, and accommodation (with certain limitations) by way of bankers' acceptances in Canadian or United States dollars. Interest is payable on Canadian dollar loans at the bank prime rate and on United States loans at the U.S. base rate for commercial loans in U.S. dollars made in Canada. LIBOR advances bear interest in the currency of the LIBOR advance at the LIBOR rate plus $\frac{3}{8}$ of 1% per annum. The loan agreements require that principal payments received under the Brascan indebtedness be applied to retire long-term debt, unless otherwise agreed.

At December 31, 1981, LIBOR advances aggregated U.S. \$75,000,000. Repayment of these advances at the year-end rate would result in additional obligations of \$485,000. The 9,643,250 shares of Norcen have been hypothecated as security for the long-term debt.

7. Share Capital

During 1981, 17,967 shares valued at \$845,000 were issued as stock dividends.

8. Income Taxes

The company and a subsidiary have available for application against any taxable income of future years development expenditures aggregating approximately \$8,400,000. Additionally, the company has available for application against any future capital gains, capital losses for income tax purposes of \$2,664,000. Income tax reductions with respect to these items will be reflected in the financial statements when realized.

Consolidated Financial Review 1972-81

(in thousands of dollars)	1981	1980	1979	1978**	1977	1976*	1975	1974	1973	1972
Iron ore royalties	\$45,665	\$42,493	\$ 44,123	\$25,459	\$34,028	\$29,171	\$25,748	\$19,736	\$15,096	\$ 9,125
Interest	35,071	25,399	11,626	4,833	4,043	3,674	3,381	2,901	2,481	1,742
Dividends	15,287	16,594	7,925	4,207	4,930	4,500	6,521	5,221	4,225	3,450
Other income	687	2,439	1,290	1,669	1,797	1,373	890	503	567	397
Gold and silver production	—	—	—	—	—	616	2,651	2,718	1,957	1,442
Total revenue	96,710	86,925	64,964	36,168	44,798	39,334	39,191	31,079	24,326	16,156
Expense — Interest	59,688	37,120	687	—	—	—	—	—	—	—
— Administration & Exploration	6,011	6,143	9,365	6,619	2,587	4,803	5,625	4,660	3,664	3,577
Earnings before taxes, equity earnings, minority interest and extraordinary item	31,011	43,662	54,912	29,549	42,211	34,531	33,566	26,419	20,662	12,579
Income taxes	1,713	8,292	15,013	6,520	12,840	11,670	9,750	7,425	6,006	3,180
Newfoundland royalty taxes	8,873	7,500	7,900	4,529	5,959	4,930	4,550	—	—	—
Earnings before equity earnings, minority interests and extraordinary item	20,425	27,870	31,999	18,500	23,412	17,931	19,266	18,994	14,656	9,399
Share of equity earnings: Norcen Energy Resources	7,104	14,110	—	—	—	—	—	—	—	—
Iron Ore Company of Canada	—	—	—	—	4,070	2,270	30	(7,041)	1,687	770
Minority interests	(6,125)	(11,569)	(10,176)	(5,490)	(7,816)	(6,482)	(5,841)	(4,824)	(4,542)	(2,823)
Earnings before extraordinary item	21,404	30,411	21,823	13,010	19,666	13,719	13,455	7,129	11,801	7,346
Extraordinary item	(12,709)	—	85,629	829	—	—	—	—	376	—
Net earnings	\$ 8,695	\$30,411	\$107,452	\$13,839	\$19,666	\$13,719	\$13,455	\$ 7,129	\$12,177	\$ 7,346
Earnings per share before extraordinary item	\$3.64	\$5.19	\$4.07	\$2.64	\$4.00	\$2.79	\$2.73	\$1.45	\$2.40	\$1.49
Regular dividends paid per share	\$2.20	\$2.20	\$2.20	\$2.06	\$1.944	\$1.80	\$1.65	\$1.60	\$1.60	\$1.60

* Restated in 1977 to reflect Hollinger's equity share of a prior period adjustment by Iron Ore Company of Canada for the capitalization of leases.

** In 1971 the company adopted the policy of including in income its proportionate share of the changes in its equity in Iron Ore Company of Canada instead of dividends received. In 1978 the company reverted to the practice of taking into income dividends as received.

Financial Information

December 31, 1981

	Hollinger Argus Limited (non-consolidated)	Labrador Mining and Exploration Company Limited (thousands)	Hollinger North Shore Exploration Inc.	Argus Corporation Limited (to Aug. 18/81)
Assets:				
Cash and short-term deposits	\$ 23,961	\$ 333	\$ 785	\$ —
Accounts receivable and other assets	2,018	19,478	24	
Due from associated companies	7,973	28	—	
Brascan indebtedness	—	168,876	—	
Investment in consolidated subsidiaries	43,304	—	—	
Investments — Norcen	—	390,084	—	
Investments — other	25,715	12,061	—	
Oil and gas properties	9,480	9,480	—	
Fixed assets — net	27	25	84	
Mining rights and concessions	—	1,886	332	
	\$112,478	\$602,171	\$ 1,225	
Liabilities:				
Current	\$ 863	\$ 3,317	\$ 181	
Due to associated companies	—	7,973	28	
Long-term debt	—	370,615	—	
Deferred income taxes	3,729	27,567	—	
	\$ 4,592	\$409,472	\$ 209	
Shareholders' Equity	\$107,886	\$192,669	\$ 1,016	
Revenue:				
Iron ore Royalties	\$ —	\$ 45,238	\$ 427	\$ —
Interest	5,129	30,034	94	918
Dividends from consolidated subsidiaries	6,962	—	—	—
Dividends — other	8,757	3,677	—	2,854
Other	606	49	32	—
Total revenue	21,454	78,998	553	3,772
Expenses	(1,998)	(63,481)	(495)	(829)
Taxes:				
Current	(650)	254	—	
Deferred	(1,238)	(79)	—	
Newfoundland royalty	—	(8,873)	—	
Equity in earnings of Norcen	—	7,104	—	
Net earnings	\$ 17,568	\$ 13,923	\$ 58	\$ 2,943
"Regular" dividends paid	\$ 12,877	\$ 10,400	\$ Nil	\$ 1,076

HOLLINGER ARGUS LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

For the Three Months Ended March 31, 1981

	1981	1980
		Restated
		(thousands)
REVENUE:		
Royalties	\$ 8,714	\$ 8,302
Interest	7,568	6,850
Dividends	1,232	1,762
Other	206	556
Total Revenue	\$ 17,720	\$ 17,470
EXPENSE:		
Exploration	\$ 381	\$ 454
Interest	13,511	7,040
Administration	833	883
Total Expense	\$ 14,725	\$ 8,377
Earnings before taxes, equity earnings and minority interests	\$ 2,995	\$ 9,093
TAXES:		
Income taxes — current	\$ (1,895)	\$ 829
— deferred	1,786	1,665
Newfoundland royalty taxes	1,656	1,470
Total Taxes	\$ 1,547	\$ 3,964
Earnings before equity earnings and minority interests	\$ 1,448	\$ 5,129
Equity earnings of Norcen Company's interest in Norcen's earnings	8,827	9,355
Amortization of excess of cost of investment over underlying book value	(3,181)	(2,353)
Total Equity Earnings	\$ 5,646	\$ 7,002
Earnings before minority interests	7,094	12,131
Minority interests	2,373	4,042
NET EARNINGS	\$ 4,721	\$ 8,089
Earnings per share (Note 1)	\$ 0.80	\$ 1.38

Note 1.—Based on average number of shares outstanding in 1981 — 5,868,034 (1980 — 5,847,982).

HOLLINGER ARGUS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Three Months Ended March 31, 1981

	1981	1980
		Restated
		(thousands)
SOURCE OF FUNDS:		
Funds provided from operations — including dividends from Norcen Energy Resources Limited in 1981 of \$2,411 (1980 — \$1,449)	\$ 5,652	\$ 8,251
Increase in long-term debt	—	296,338
	\$ 5,652	\$ 304,589
APPLICATION OF FUNDS:		
Purchase of investments	\$ 2,541	\$ 294,587
Expenditures on oil and gas properties	1,270	2,106
Cash dividends paid by:		
Parent Company	2,883	2,939
Subsidiaries to minority shareholders	1,220	1,320
Increase in accounts receivable and other assets	64	—
Decrease (increase) in income taxes and Newfoundland royalty taxes payable	1,625	14,127
Other	1,162	3,826
	\$ 10,765	\$ 318,905
Decrease in funds	\$ (5,113)	\$ (14,316)
Cash and short-term deposits, beginning of the period	30,351	36,595
Cash and short-term deposits, end of the period	\$ 25,238	\$ 22,279

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**HOLLINGER ARGUS LIMITED
HOLLINGER ARGUS LIMITÉE**

**AND ITS SUBSIDIARIES
LABRADOR MINING AND EXPLORATION COMPANY LIMITED
HOLLINGER NORTH SHORE EXPLORATION INC.
AND
ARGUS CORPORATION LIMITED**

May 22, 1981.

To the Shareholders:

The unaudited Consolidated Statement of Earnings and the Consolidated Statement of Changes in Financial Position for the three months ended March 31, 1981 are submitted herewith. Consolidated with these statements are the results for the same period of Hollinger Argus' three main subsidiaries, Labrador Mining and Exploration Company Limited, Hollinger North Shore Exploration Inc. and Argus Corporation Limited.

Earnings for the first three months of 1981 amounted to \$4,721,000 or 80¢ per share, as compared to earnings for the same period in 1980 of \$8,089,000 or \$1.38 per share. 1980 earnings have been restated to reflect the capitalization of interest in the amount of \$1,624,000. Interest expense was higher in the first quarter of 1981 as compared to the corresponding quarter of 1980. There were two reasons for this increase: The Labrador loans were lower in the first quarter of 1980 than in the corresponding quarter of 1981 and interest rates were substantially higher in the first quarter of 1981 as compared to the first quarter of 1980.

The production of concentrate by Iron Ore Company at Labrador City set a new record for a first quarter. Pellet production at Sept-Iles was lower than usual because only one of two lines operated during the first three months of 1981. Production was halted at Sept-Iles on April 15 and the plant will remain closed until demand for pellets improves. At this time it is not possible to predict with any confidence when the plant will be re-opened.

As mentioned in the Annual Report, the labour contract at Iron Ore Company expired on February 28 of this year. I am happy to be able to say that a new three-year settlement has been reached. The terms of the settlement are similar to those negotiated by other North American iron ore companies within the past year. It will allow Iron Ore Company to remain competitive and assures the employees fair return for their efforts during the next three years.

The net income of Norcen Energy Resources Limited was lower in the first quarter of 1981 as compared to the first quarter of 1980, due to lower synthetic crude sales and higher taxes and expenses more than offsetting the effects of higher oil and gas prices.

Yours very truly,

P. C. FINLAY,
Chairman of the Board